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**THE VIETNAM PETROLEUM INDUSTRY:
POSITIONED FOR GROWTH BUT RIPE FOR REGIONAL COMPLICATIONS**

by

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A paper submitted to the Faculty of the Naval War College in partial satisfaction of the requirements of the Department of Joint Military Operations.

The contents of this paper reflect my own personal views and are not necessarily endorsed by the Naval War College or the Department of the Navy.

Signature: //signed, mec, 30 Oct 13//

30 October 2013

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ABSTRACT

A growing economy and increased industrialization have significantly increased Vietnam's energy requirements and its demand for petroleum products. With a rising need for oil and a shrinking domestic supply, Vietnam is faced with a growing reliance on foreign energy sources. To combat this dependence, Vietnam is actively pursuing exploration and expansion efforts to increase their domestic petroleum production. These efforts are not only technologically challenging and expensive, they are also being conducted with a wide array of foreign partners and in disputed territorial waters. Making matters even more complex, neighboring China is not only a historic adversary and the primary claimant in many territorial disputes, it is also the world's biggest consumer of energy. This paper analyzes the expansion efforts of Vietnam's state-owned petroleum company, PetroVietnam, and discusses the potential ramifications of these efforts to regional security. In addition, the paper identifies implications to strategic interests of the United States and recommends possible engagement areas that will facilitate a continued U.S. presence in the region.

INTRODUCTION

The United States government's strategic rebalance towards the Asia-Pacific region carries with it the potential to open doors to both mutually beneficial opportunities and significant concerns. Throughout the region, each government, industry and culture presents a unique and complex mix of relationships, history, competing interests and security challenges. Yet, many of these same sectors are also ripe for improved diplomatic engagement, increased foreign investment and budding strategic partnerships. From the U.S. government perspective, one could argue that few nations in Southeast Asia highlight the broad scope of opportunities and complex challenges better than Vietnam. As this paper will illustrate, the Vietnam petroleum industry is a microcosm of some of the greater national and regional issues currently faced by Vietnam.

When the Vietnam economy surged between 1995 and 2010, so did the demand for both oil and electricity.¹ Increased demand, coupled with shrinking domestic supplies, puts Vietnam on track to become a net importer of energy sources by 2020 and one estimate predicts a three-fold increase in domestic demand for petroleum products by 2035.² Even with aggressive efforts by Vietnam to improve its oil exploration and production efforts, Vietnam recognizes its increasing dependence on foreign petroleum and is actively searching for solutions in a complex competition for these essential natural resources.

PetroVietnam Oil & Gas Group (PVN) is a state-owned company, serving as the parent owner, regulator and clearinghouse for all facets of Vietnam's oil and natural gas production.³ Foreign countries and private organizations seeking to partner with PVN, or one of its four subsidiaries, do so with the full knowledge that the partnership is with not only the company, but also the government of Vietnam. Thus, private business partnerships with

a state-owned company, while not inevitably risky, adds the dimensions of diplomatic tension and regional disputes into the business equation.

PVN's pursuit of joint exploration, production and expansion opportunities are a potential double-edged sword worthy of attention from the U.S. government. On one hand, the industry provides investment opportunities for global corporations and the chance for Vietnam to work towards energy self-sufficiency. On the other hand, Vietnam's current petroleum partnerships with countries like Russia and Cuba may run counter to U.S. interests.⁴ More importantly, territorial disputes in the South China Sea (SCS) with neighboring countries, including China, means nationalistic tensions often run high, and risk of spill-over into the petroleum exploration sector is always present. This being the case, it is essential for the United States government to understand the strategic implications of PVN's petroleum expansion initiatives, both regionally and internationally, and it should seek mutually beneficial engagement opportunities that support both U.S. and regional interests.

Background - The Vietnam Petroleum Industry

As a starting point, it is necessary to provide an overview of Vietnam's petroleum industry and its supply-demand concerns, in order to gain a better understanding of why the United States should care about this particular sector. As mentioned in the introduction, Vietnam's economic growth since the mid-1990s has created a significant demand for the nation's energy resources. The Asia-Pacific Economic Cooperation (APEC) estimates that, in the next 20 years, overall energy demand will double in Vietnam, with oil accounting for more than 50% of the total demand.⁵ In addition, APEC projects that Vietnam's reliance on imported oil will begin to increase in 2014, and reach a 66% dependency rate by 2035.⁶ Like with many other countries reliant on foreign sources for their energy needs, oil will

increasingly become a matter of Vietnamese national security in the years ahead. Oil dependency as a national security interest is especially vital to Vietnam considering its neighbor, China, has similar issues and is not only a historic adversary, but is also the world's biggest energy consumer.⁷

Faced with a growing energy challenge, Vietnam is taking deliberate steps to increase its domestic oil production and improve its self-reliance. However, like many industries and sectors in the Socialist Republic of Vietnam, the government role in the petroleum industry cannot be overlooked. PetroVietnam, established in 1977, controls almost every aspect of Vietnam's petroleum industry from exploration to distribution.⁸

Acting on behalf of the Vietnamese government, PVN is comprised of four subsidiary companies: Petroleum Exploration and Production Corporation (PVEN), Gas Corporation, Electricity Production and Trading Corporation and the Oil Refining and Petrochemical Corporation. PVN has a monopoly on oil distribution and transmission. Joint partnerships with private companies are utilized for exploration and production, but all of these partnerships must sell the products through PVN.⁹ Importantly, the revenues and taxes collected on petroleum sales account for between 20% and 30% of Vietnam's annual national budget.¹⁰

Currently, Vietnam has 14 oil-producing fields, located mostly in the Cuu Long and Nam Con Son basin areas off the southeast coast. Prior to 2009, the country did not have its own refining capability, so it exported crude oil and imported refined products.¹¹ PVN opened its first refinery in 2009 along the east-central coastline area of Dung Quat. With the ability to produce 140,000 barrels per day (bbl/d) of its own refined product, the refinery is critical to offsetting the country's more than 388,000 bbl/d consumption rate. Coupled with

the refined oil, Vietnam produces more than 300,000 bbl/d of unrefined crude oil. All together, Vietnam holds 4.4 billion barrels of crude oil reserves, making it the third largest holder of reserves in Asia (as of January 2013).¹²

Although a state-owned corporation, PVN seeks and welcomes foreign commercial investment, mostly in the upstream portions of its operations (exploration and production). However, the bureaucracy involved in partnering with Vietnam goes beyond just PVN. All laws, policies and regulations associated with upstream partnerships are delegated from the National Assembly to the Prime Minister. The Prime Minister, in turn, administers the petroleum sector through the Ministry of Industry and Trade (MOIT). The MOIT formulates strategies and master plans for Prime Minister-level approval and provides direction to the board of directors of PVN. PVN manages the subsidiary companies and regulates the industry (see Figure 1).¹³

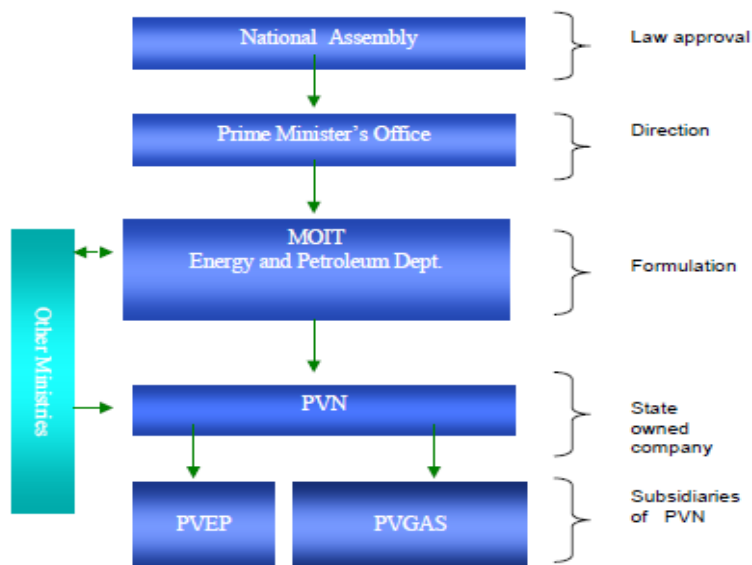


Figure 1

(Source: Hai Tien Le, "Policy Suggestions for the Initial Development of Vietnam's Gas Industry, 2012, pg. 11)

The bureaucratic organization of the industry can be both daunting and pre-disposed for conflicts of interest between state needs and efficient, smart business. For example,

before beginning joint ventures in Vietnam, international oil companies must first seek approval from the MOIT, but then negotiate licensing with the PVN subsidiary, PVEN.¹⁴ Making matters more challenging, direct government involvement in oil projects is frequent, and many of the industry policies vary from project to project. It is not uncommon for major expansion and exploration projects to suffer long delays.¹⁵ The structure of the petroleum industry in Vietnam makes it imperative for companies seeking to expand into Vietnam, to do so with patience and caution.

From the United States perspective, there are two key takeaways pertaining to the specifics of Vietnam's petroleum industry. First, state-ownership and the monopolistic character of PVN means the Vietnamese government is a major part of all aspects of the industry. Secondly, faced with increasing demand for oil and a shrinking supply, PVN will be searching for opportunities to expand their domestic capabilities and decrease reliance on foreign sources. Taken together, growing the petroleum industry is unquestionably a national interest for the Vietnamese government.

PetroVietnam Expansion & Exploration Initiatives

After more than fifty years of exploration efforts, a substantial oil field was discovered on Vietnam's continental shelf in August of 1974.¹⁶ Since this first significant discovery, Vietnam has continued to grow its petroleum industry through both state-sponsorship and joint ventures. The current expansion efforts can be grouped into three primary categories: 1) domestic production, 2) exploration initiatives and 3) international partnerships outside of the region. Although some of these efforts are internal to Vietnam, others involve relationships that carry the potential to stir up regional and international tensions.

Within the country, PVN is attempting to expand its domestic refinement capabilities. With the intention of boosting production at Dung Quat to 200,000 bbl/d by 2017, PVN plans to offer 49% of the refinery's equity to foreign investors.¹⁷ Russia is reported to be interested in investing in this facility.¹⁸ In addition, PVN will break ground on a second refinery at the end of October 2013. The \$9 billion refinery, located about 180 kilometers south of Hanoi, will be a joint partnership with companies from Japan and Kuwait. Planned to be in operation by 2017, this facility is projected to produce 200,000 bbl/d.¹⁹ In the long-term, Vietnam is seeking to partner with foreign investors to build a total of five domestic refineries. This includes a third refinery in southern Vietnam by 2020. Although much of the unprocessed crude oil will be imported to Vietnam, the domestic refineries will lower the overall import costs and create the capability to export refined oil at a significant profit.²⁰

Exploration occupies a large part of PVN's current growth endeavors. However, although Vietnam has invested large amounts of money in exploration efforts, the high costs associated with these efforts has driven PVN to partner with multiple foreign companies to offset the expenses.²¹ In general, the exploration efforts fall into two basic types: those in undisputed areas and those in disputed areas. As will be evident, the current partnerships and regional connections create a truly global, diverse and somewhat unpredictable mix of players.

In the undisputed areas, PVN is concentrating efforts towards the Red River delta in northern Vietnam and off the coast of central Vietnam, near Da Nang.²² In the Da Nang area, PVN is already partnered with the U.S. oil giant Exxon Mobil (Exxon). Although Exxon announced in late 2011 that they had discovered oil in this location, the probability of commercial quantities was still being analyzed. If there are commercial quantities of oil at

this site, PVN and Exxon hopes to begin drilling and producing by the end of this decade.²³ PVN is still seeking partners to explore in the Red River delta region.²⁴

It is also important to note that Russia is heavily invested in Vietnam's natural gas exploration and production projects. Although natural gas growth is outside the scope of this analysis, Russia-based Gazprom is a key exploration partner in many of the same undisputed areas where oil exploration is being conducted, which will likely strengthen Vietnam's already strong ties with Russia.²⁵ Within the undisputed waters, Vietnam also has joint exploration ventures in progress with companies from Italy, Korea, Singapore, China, and France.²⁶

Along with the attempts to discover and produce oil within Vietnam's uncontested waters, the country is also pursuing exploration in several disputed areas of the South China Sea. As will be discussed in detail in the next section, multiple countries have made territorial claims in certain areas of the SCS, with China, Malaysia, Brunei, the Philippines and Vietnam all claiming sovereignty of overlapping portions of the SCS. Importantly, China's claim essentially covers the entire SCS, making them a critical element of any exploration effort, especially ones where they are not included in the partnership.²⁷

A U.S. Geological Survey team conducted an analysis of a significant portion of the SCS in 2010 as part of the World Petroleum Resources Assessment Project. The report indicated anywhere from 5 billion to 22 billion barrels of undiscovered oil may exist beneath the seabed within the disputed areas.²⁸ The estimated amount of undiscovered oil varies considerably with the source conducting the analysis. Some experts project as little as 2.5 billion barrels, making significant exploration efforts cost prohibitive. Conversely, the

Chinese National Offshore Oil Company estimates as much as 125 billion barrels—making China’s territorial claims in the SCS even more strategically significant.²⁹

Within the disputed areas of the SCS, Vietnam is pursuing exploration through multiple avenues. In one particularly interesting partnership, PVN has paired with India’s largest oil company in an exploration project in the SCS—one that crosses into the area claimed by China. Despite fairly low-level protests from the Chinese government, India deferred to Vietnam’s sovereign territorial claim to justify the agreement. Although India is proceeding cautiously in the SCS, it is an indication that they may be willing to assert their influence to counter China’s regional weight.³⁰

Despite the historical tensions and disputes with China pertaining to the SCS, Vietnam is also involved in cooperative exploration projects with China within the disputed areas. In July of 2013, both countries extended an agreement to continue joint exploration efforts in the Gulf of Tonkin. This joint venture has operated with no apparent issues for the last six years. There are, however, no current China-Vietnam projects within the more fervently disputed areas near the Spratley and Parcel islands.³¹ There also appears to be no agreement on how the countries will position themselves if substantial amounts of petroleum are discovered during these joint ventures.

Outside of the SCS region, Vietnam is also making significant investments into overseas ventures. For example, a joint venture off of the coast of Peru is due to begin production later this year, with an expected yield of 60,000 bbl/d. PVN is also working jointly at a site in Venezuela that is projected to produce up to 50,000 bbl/d. Another joint venture in Russia produces up to 28,000 bbl/d. On top of these ongoing activities, PVN has recently drilled dry wells and conducted seismic surveys in Cuban and its coastal waters.³²

It does not appear that PVN has any intentions of reducing their search for overseas partnerships in the near future. In fact, in April of 2013, President and CEO of PVN, Mr. Do Van Hau, claimed to the *Wall Street Journal* that PVN had invested more than \$1 billion in overseas projects “and we will keep on spending.”³³

It is clear that Vietnam and PVN will not sit by idly and allow themselves to become overly dependent on foreign energy sources. Despite project delays and regional disputes, PVN continues to actively pursue numerous efforts to develop their petroleum industry and shrink their supply-demand delta. Yet, some of these efforts to secure Vietnam’s national interests also come with risks, barriers and potential consequences that could be destabilizing influences in the region. Therefore, it is crucial for U.S. government agencies involved in the Asia-Pacific region to have a keen awareness of these growth initiatives and the possible ramifications.

Roadblocks & Ramifications

Having painted a picture of the overall Vietnamese petroleum industry, its structure, and its growth initiatives, it is imperative to understand where things could become complicated for foreign investors and hazardous for the region. There is no doubt that the territorial disputes in the SCS contribute some of the greatest sources of tension in the region. However, along with potential conflicts over claims of sovereign territory, there are also other inter-state rivalries that require consideration.

The South China Sea encompasses roughly 3.5 million square kilometers of water with Vietnam, China, Indonesia, Malaysia, Singapore, the Philippines and Brunei all possessing coastal territory. It contains major international sea lines of communication and a primary fishery for several countries in the region. The SCS also holds the potential for

substantial amounts of oil and natural gas—key natural resources for a region with rapidly growing energy demands.³⁴ Along with the potential for abundant drilling, “almost a third of global crude oil and over half of global [liquid natural gas] trade passes through the South China Sea.”³⁵ In short, maritime problems in the SCS can create regional and global impacts.

There are many pages of articles, legal analyses and reports pertaining to the territorial disputes in the SCS. The issues have long histories, are complex and have no easy answers. As such, the purpose of this discussion is not to rehash or solve the disputes in the SCS. Instead, I will only give a top-level overview to highlight the issues germane to the petroleum industry and how they have manifested in the past few years.

In 1947, China published an official map using eleven dashed lines to indicate Chinese territory in the SCS. The dashed lines formed a large u-shape that covered much of the SCS. Two of the dashes in the Gulf of Tonkin were later dropped and the revised nine-dash line map “was subsequently adopted by the People’s Republic of China.”³⁶ The red line in Figure 2 below outlines the territory claimed in the original 9-dash line. The other lines indicate the sovereign territorial claims made by Vietnam, Malaysia, Brunei and the Philippines.³⁷ These lines have been the root of a number of recent disputes involving Vietnam, China and the search for untapped petroleum sources.



Figure 2

(Source: James Fallows, “The Next Global Hotspot to Worry About.” *The Atlantic*, November 29, 2012. Online)

Although China and Vietnam are conducting joint exploration in the SCS, this should not be mistaken for agreement on or waning interest in territorial claims. In September 2011, while addressing Vietnamese, Philippine and Malaysian petroleum exploration in the SCS, a spokesperson for the Chinese Ministry of Foreign Affairs was clear in his assertion that “we oppose any other country’s oil and gas exploration in the waters under China’s jurisdiction and hope relevant foreign company [sic] do not involve itself in the South China Sea dispute.”³⁸ After explaining China’s claims in the SCS since “antiquity,” he added “...any country or company’s oil and gas exploration [in these areas claimed by China] is an infringement upon China’s sovereignty, rights and interests, and is thus illegal.”³⁹

In some cases, China has taken action beyond just rhetoric to stress its position on the claims in the SCS. For example, in 2005, Chinese naval ships fired on Vietnamese fishermen operating in a disputed area, resulting in nine fatalities. In 2009 alone, the Chinese navy captured 17 Vietnamese fishing boats and 210 crewmen operating in these same waters.⁴⁰ In an event specific to oil exploration, a Chinese surveillance vessel harassed and then cut the cables of a PVN survey ship conducting research in a disputed area within Vietnam’s exclusive economic zone.⁴¹

In addition to state versus state flare ups, China has also used its economic status in attempts to financially influence foreign corporations from partnering on projects in the disputed waters with anyone except them. United States diplomatic cables released publicly through the Wikileaks affair highlight how, starting in 2006, China pressured major corporations such as Chevron, British Petroleum and ConocoPhillips to avoid contracts with Vietnam in the disputed areas, citing Chinese sovereignty. Exxon was the only company that continued to work with PVN in these areas. Of note, after stepping away from contract

negotiations with PVN, Chevron signed a substantial agreement with China to drill for natural gas on mainland China.⁴²

Although seemingly hesitant to resist Chinese aggression with counter-aggression, Vietnam has not accepted these actions against their commercial operations lying still. Vietnam was able to expose Chinese aggression after the cable cutting incident and ignite international criticism against China.⁴³ In 2012, when China solicited commercial bids for exploration projects in the same disputed waters, Vietnam responded with strong diplomatic protests.⁴⁴ The duplicity of China's position does not seem to be lost on the Vietnamese people either. The diplomatic stir over the 2012 commercial bids incited demonstrations in Vietnam to protest the Chinese actions.⁴⁵

Along with the disputes tied directly to the SCS, a basic knowledge of other regional alliances and historical ties makes it easier to grasp possible complications related to the petroleum industry and regional/national interests. Again, there are scores of pages published about these relationships, but some of the key historical links are important to identify, especially as they pertain to the U.S. pivot towards Asia. In the November-December 2012 issue of *Asian Survey*, Simon Sheldon provides a succinct snapshot of these ties: Vietnam, Malaysia, the Philippines and Brunei are somewhat united in their SCS claims against China. However, the other countries also all have individual claims against Vietnam. Laos and Cambodia (bordering countries) have traditionally been linked with China. Thailand and Singapore claim neutrality in the disputes. Vietnam and the Philippines are seeking U.S. investment and a role in settling the disputes; Malaysia and Singapore are less interested in U.S. involvement.⁴⁶ This is clearly a complicated set of relationships.

Even with just a top-level view of the complex issues directly related and/or tangential to the Vietnamese petroleum industry, it becomes easy to see why maritime security scholar, Sam Bateman, classifies these regional issues as “wicked problems.” He fittingly argues that the highly complex issues and levels of disagreement about the problems make policy creation “highly resistant to resolution.”⁴⁷ So, as the U.S. shifts focus to the Asian-Pacific region, U.S. agencies and commercial entities must do so with the realization that these problems are not going away.

Implications & Opportunities for U.S. National Interests

What does this all mean for agencies of the U.S. government? In short, the United States needs to carefully monitor ongoing and future Vietnamese efforts to secure energy self-sufficiency—but must tread carefully. Knowing that the U.S. has a strong interest in the region, the likelihood is high that the countries bordering the SCS will use U.S. presence to leverage their own national interests. As Asian security affairs expert, Dr. David Lai asserts, for the U.S., “doing too little runs the risk of emboldening China to take tougher stands against its neighbors. But doing too much would antagonize China and encourage disputants to overplay the ‘U.S. card.’”⁴⁸ The key for the U.S., therefore, is to correctly identify possible implications of increased presence, along with opportunities to bolster regional relationships without being too assertive.

Unquestionably, regional maritime security in Southeast Asia is of extremely high importance to the government of the United States. However, in the pursuit of security, the U.S. needs to be especially careful to avoid finding itself in flare-up situations where it might be asked to serve as a referee. More importantly, the U.S. must avoid the temptation to overtly pick a side in these disputes. This will not be easy because as Vietnam and China

bolster their petroleum exploration efforts in the SCS, the probability of more disputes is significant.

Although often hindered by their inability to gain consensus and enforce policy, some of the inter-governmental organizations established in the region provide a good opportunity for the United States to increase its indirect engagement in maritime security. The East Asia Summit (EAS) and the Association of Southeast Asian Nations (ASEAN) are probably the most legitimate and well-known organizations addressing regional issues. ASEAN oversees several sub-forums that are particularly relevant to the concerns with oil exploration. The ASEAN Regional Forum (ARF) and ASEAN Maritime Forum (AMF) are probably the best portals for the U.S., considering it already participates in these groups. Another forum for the U.S. to maintain engagement with is the Council for Security Cooperation in the Asia Pacific (CSCAP). An additional opportunity for the U.S. is future engagement with the Heads of Asian Coast Guard Agencies (HACGA).⁴⁹ This forum would provide the U.S. with a way to discuss and engage in regional maritime security planning with a department other than the U.S. Navy.

Aside from state versus state conflicts, the U.S. needs to understand and monitor asymmetric threats such as piracy or environmental disasters such as an oil spill. The growth of petroleum exploration, whether by Vietnam, China, or one of the other countries in the region will increase the strategic importance of an already critical area. Should significant petroleum reserves be discovered, the U.S. should be prepared for an increase in piracy throughout the region. Issues pertaining to a national response to piracy, rules for the use of force, jurisdiction and prosecution, will all become multinational concerns should the piracy occur in disputed waters. Some agreements and joint operations to combat piracy are already

in execution. For example, Vietnam and Indonesia have been conducting joint patrols in the SCS since 2011. However, Indonesia also has overlapping SCS claims with China, making the bilateral anti-piracy effort lacking the involvement and cooperation of China.⁵⁰

Anti-piracy training and operations are certainly topics the U.S. could leverage into increased engagement in the region. Using the forward projection of the U.S. Navy and the lessons learned from fighting piracy in other parts of the world, mutually beneficial efforts could blossom. Increased engagement in anti-piracy efforts by United States Pacific Command (USPACOM) would support its strategic approach to enhance regional security cooperation and build partnerships.⁵¹ In addition to the U.S. Navy, anti-piracy operations could give the U.S. Coast Guard (USCG) an opportunity to train with and share experiences with regional coast guards. Using the HACGA as an entry point, the USCG could support USPACOM objectives but with a lesser military feel than if done with the U.S. Navy.

An increase in drilling operations would also increase the likelihood of environmental concerns caused by leaks or spills. A major oil spill or leak would not only have considerable impacts on the ecology in the SCS, but it may also spark region-wide conflict tied to responsibility for the disaster. Disaster response is a topic USPACOM and the U.S. State Department could use as an inroads to building multilateral cooperation and overall maritime security. In 2011, the Deputy Assistant Secretary of Defense for South and Southeast Asia signed a Memorandum of Understanding (MOU) with the Deputy Defense Minister of Vietnam addressing bilateral cooperation. One of the identified areas of cooperation in the MOU is disaster relief.⁵² Leveraging the resources and skills of the U.S. Navy, USPACOM could also include representatives from the USCG, the Environmental Protection Agency, the Federal Emergency Management Agency and the National

Oceanographic and Atmospheric Administration in exercises aimed at sharing knowledge with their Vietnamese counterparts and helping Vietnam prepare for an oil-related disaster. Ideally, a USPACOM exercise of this nature would be multilateral and include as many regional partners as feasible.

Finally, USPACOM should game plan with their Vietnamese counterparts for unpredictable but not entirely uncommon events such as terrorism or violent acts against PVN petroleum resources. With U.S.-based oil company Exxon being a major participant in Vietnamese oil production, it is possible that acts of violence targeting oil resources could result in U.S. citizens becoming hostages or fatalities. Using the MOU as a vehicle for future cooperation, the U.S. and Vietnam should at least consider talking through this opportunity to increase understanding and compatibility.

Although complex and without clear solutions, the potential problems tied to Vietnam's quest for domestic petroleum sources also open doors to some notable opportunities. Concerns over petroleum and other energy sources are not unique to Vietnam or the SCS region. While the U.S. will not be able to guarantee regional stability or quell the region's thirst for energy resources, it can take positive steps to help improve, or at least maintain, the status quo. USPACOM, acting on behalf of and in conjunction with other U.S. government agencies, can help set the conditions for stability with concerted efforts in areas that provide benefit not only to Vietnam, but the region as a whole.

CONCLUSION

While not implying that a conflict in the SCS region is inevitable, U.S. Department of Defense Policy Board member and Center for New American Security senior fellow, Robert Kaplan, suggests that the 21st century's major battlefield will be the SCS.⁵³ It remains to be

seen as to whether his prediction hold true. However, historical tensions, growing economies and increased regional energy demands make national sovereignty and security issues international concerns. As posited at the beginning of this paper, Vietnam and its petroleum industry are microcosms of Southeast Asia.

PVN will continue to pursue ventures, both domestically and abroad, to secure its energy self-reliance. It is not the role of the United States, nor should it be, to assist them or protect them during these expansion ventures. In fact, as highlighted, some of PVN's partnerships are probably counter to U.S. interests. Vietnam also realizes ties with the U.S. that become too strong will likely fuel Chinese saber-rattling and aggression.⁵⁴ This being the case, the U.S. will need to find niche areas to strengthen ties with Vietnam while at the same time avoiding perceptions of alliance building that counters China.

Continued monitoring of Vietnam's petroleum projects is clearly in the best interest of the United States if it seeks to be a stabilizing force in the region. However, direct engagement in the industry or too heavily with specific countries may be counter-productive and actually make the regional issues worse. Instead, the United States should concentrate on areas that provide support to our partners, but also provide benefits to neighboring countries. Anti-piracy and disaster response cooperation are two areas where the U.S. can help the region while also bolstering its own maritime security interests.

The U.S. government has been clear in stating that it does not take sides on territorial disputes, including disputes in the SCS.⁵⁵ Yet, the U.S. also cannot sit by and watch idly as a potentially explosive situation escalates out of control. The key for the U.S. is to find engagement opportunities that show an understanding and respect for regional sensitivities, yet also promote U.S. national security interests in the region.

RECOMMENDATIONS

- Although bilateral strategic partnerships are important to U.S. interests, military-related exercises and engagement should be multilateral when possible. U.S. efforts risk being undermined if some countries, particularly China, interpret bilateral efforts with other countries as the formulation of alliances against them.
- USPACOM should seek opportunities to engage with Vietnam and other regional partners in non-intrusive areas that provide benefit to the entire region. Combating piracy and preparation for disaster response are common interests shared by all countries in the SCS region and can serve as a tool for not only better regional cooperation, but also as a foothold for establishing and/or preserving a U.S. regional presence.
- Recent flare ups in the SCS over oil exploration and fisheries are symptoms of much deeper historical regional and state-versus-state matters. Every flare up in the SCS does not require U.S. action. However, it is critical for the U.S. to understand how these seemingly minor acts of aggression fit into the scope of much larger national interests.

NOTES

¹ Asia-Pacific Energy Cooperation, *APEC Energy Demand and Supply Outlook*, 5th ed., (February 2013), 217,220, http://publications.apec.org/publication-detail.php?pub_id=1389.

² Ibid, 220.

³ Ibid, 218.

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